

Rev. Rul. 81-58, 1981-1 C.B. 331

Civic; social welfare; police officer association. A nonprofit police officer association whose primary activity is providing lump-sum retirement payments to its members or death benefits to their beneficiaries will not qualify as a social welfare organization for taxable years beginning after August 23, 1981. Rev. Rul. 75-199 amplified.

#### ISSUE

Does the nonprofit police officer association described below, which is primarily engaged in providing retirement benefits to members and death benefits to the beneficiaries of members, qualify for exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code as a social welfare organization?

#### FACTS

The association is composed of officers of a police department in a particular community. It was formed to promote the professional development of its members, to educate the public to recognize and appreciate the value of the services of the members, and to provide a lump-sum payment to each member upon retirement or a lump sum payment to beneficiaries upon the member's death.

The membership benefit program, which constitutes the primary activity of the organization, serves as a supplement to the civil service benefit program provided by the political subdivision in which the police officers are employed.

The organization's primary sources of income are from contributions by the general public and through public fund-raising events. Members are also required to pay a nominal, one-time membership fee upon joining the organization.

#### LAW AND ANALYSIS

Section 501(c)(4) of the Code provides for the exemption from federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the community. An organization embraced within this section is one that is operated primarily for the purpose of bringing about civic betterments and social improvements.

Rev. Rul. 75-199, 1975-1 C.B. 160, provides that a nonprofit

organization that restricts its membership to individuals of good moral character and health, who belong to a particular ethnic group residing in a stated geographical area, and that provides sick benefits to members and death benefits to beneficiaries of deceased members does not qualify for exemption under section 501(c)(4) because the benefit to the community at large is minor and incidental. Membership dues are the primary source of support to the organization.

The organization's primary activity is to provide retirement payments to its members or death benefits to the beneficiaries of the members. Hence, the organization is essentially a mutual, self-interest type of organization. Its income is used to provide direct economic benefits to members. Although the class of employees benefitted by the organization consist of police officers engaged in the performance of essential and hazardous public services and there is an incidental benefit provided by the organization to the larger community, the fact remains that the primary benefits from the organization are limited to its members. See Rev. Rul. 75-199 and the authorities cited therein.

Therefore, the organization is not operated exclusively for the promotion of social welfare within the meaning of section 501(c)(4).

#### HOLDING

The nonprofit police officer association described above, which is primarily engaged in providing retirement benefits to members and death benefits to the beneficiaries of members, does not qualify for exemption from federal income tax under section 501(c)(4) of the Code as a social welfare organization.

#### EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 75-199 is amplified.

#### PROSPECTIVE APPLICATION

The holding in this revenue ruling does not preclude the possible qualification for exemption for such an organization under some other paragraph of section 501(c) of the Code, where warranted by the facts in a particular case.

Under the authority contained in section 7805(b) of the Code, this revenue ruling will be applied only to taxable years beginning after August 23, 1981, six months after the date of this publication in the Internal Revenue Bulletin, in order to allow organizations to make appropriate organizational and operational changes to qualify under some other paragraph of section 501(c).